

EXECUTIVE SUMMARY

It appears Idaho's economy fared better in 2002 than had been previously reported. In the April 2003 *Idaho Economic Forecast*, DFM reported that Idaho nonfarm employment had declined 0.7% last year. This analysis was based on two quarters of historical data, one quarter of preliminary data, and a quarter of forecasted data. Since then, the Idaho Department of Labor has provided updated data that show employment growth was actually stronger. Specifically, it now appears there was no job decline from 2001 to 2002. A major reason for this can be traced to the preliminary data. The previous forecast has a 3.2% employment dip in the third quarter of last year. The revised data has total nonfarm employment not declining, but growing at a 1.0% annual rate in that quarter. This raises the starting point of the employment forecast by over 6,000 jobs. Last spring the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) published its estimates of Idaho personal income. As part of this release, the estimates back to 1999's first quarter were lowered. As a result, Idaho personal income is reported at \$28.90 billion in 1999, \$31.18 billion in 2000, and \$32.36 billion in 2001. Idaho personal income was reported as \$28.93 billion in 1999, \$31.31 billion in 2000, and \$32.53 billion in 2001 in the previous *Forecast*. The previous estimate for 2002 of \$33.65 billion was based on three quarters of historical data and one quarter of projected data. The new estimate of \$33.61 billion is solely based on historical data. While the estimate for 2002 was reduced, it is important to point out income growth from 2001 to 2002 has actually increased. Specifically, Idaho personal income grew 3.4% from 2001 to 2002 under the old estimates, but increased 3.8% based on the revised estimates. While the revisions have changed the histories of the employment and income series, the projections for these two series have changed little from their previous forecasts. In April 2003, the forecast called for Idaho nonfarm employment to grow gradually over the forecast period after suffering a setback in 2002. The new forecast is similar. Nonfarm employment advances 0.4% in 2003, 1.2% in 2004, and 1.6% in both 2005 and 2006 in this forecast. In the previous forecast employment 0.1% in 2003, 1.5% in 2004, 1.7% in 2005, and 2.0% in 2006. In the April 2003 *Idaho Economic Forecast* Idaho nominal personal income was anticipated to rise 4.3% in 2003, 5.3% in 2004, 5.1% in 2005, and 6.0% in 2006. It is now believed Idaho personal income will increase 3.5% this year, 5.2% next year, 5.1% in 2005, and 5.5% in 2006.

The current national economic forecast shows the economy picking up steam during the second half of this year. Under the forecast assumptions, next year promises to be the strongest of the forecast period, followed by slower growth. Specifically, after growing just 2.4% in 2003, real GDP should increase 4.3% in 2004, and 3.3% in 2005 and 2006. A major factor causing the optimism during the second half of this year is the economic stimulus already in the pipeline. Both the Federal Reserve and the federal government have taken actions to keep the economy moving. The nation's central bank lowered the federal funds rate to 1.0% in June, solidifying its commitment to bolster the economy. One of the reasons the Federal Reserve can afford to be so aggressive is the benign inflation outlook. President Bush signed the *Jobs and Growth Tax Relief Reconciliation Act* into law this May. The provisions likely to have the biggest impact are nearly identical to those of the initial proposal. These are the acceleration of scheduled rate cuts, the increased child tax credit, and some relief from the alternative minimum tax and marriage penalty. While the dividend and capital gains tax relief will have a limited impact on spending, the investment provisions should have some effect. The federal government also showed generosity to the states by providing \$20 billion in relief to help bridge budget gaps.

IDAHO ECONOMIC FORECAST

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JULY 2003

	1998	1999	2000	2001	2002	2003	2004	2005	2006
GDP (BILLIONS)									
Current \$	8,782	9,274	9,825	10,082	10,446	10,868	11,552	12,207	12,898
% Ch	5.6%	5.6%	5.9%	2.6%	3.6%	4.0%	6.3%	5.7%	5.7%
1996 Chain-Weighted	8,509	8,859	9,191	9,215	9,440	9,662	10,075	10,408	10,747
% Ch	4.3%	4.1%	3.8%	0.3%	2.4%	2.4%	4.3%	3.3%	3.3%
PERSONAL INCOME - CURR \$									
Idaho (Millions)	27,066	28,902	31,177	32,363	33,605	34,776	36,584	38,485	40,619
% Ch	7.3%	6.8%	7.9%	3.8%	3.8%	3.5%	5.2%	5.2%	5.5%
Idaho Nonfarm (Millions)	26,149	27,872	30,382	31,400	32,594	33,685	35,298	37,229	39,319
% Ch	6.5%	6.6%	9.0%	3.3%	3.8%	3.3%	4.8%	5.5%	5.6%
U.S. (Billions)	7,426	7,786	8,407	8,685	8,929	9,255	9,727	10,247	10,825
% Ch	7.0%	4.9%	8.0%	3.3%	2.8%	3.6%	5.1%	5.3%	5.6%
PERSONAL INCOME - 1996 \$									
Idaho (Millions)	26,268	27,594	29,030	29,538	30,257	30,737	31,784	32,710	33,728
% Ch	6.2%	5.0%	5.2%	1.7%	2.4%	1.6%	3.4%	2.9%	3.1%
Idaho Nonfarm (Millions)	25,379	26,611	28,291	28,659	29,346	29,772	30,667	31,642	32,649
% Ch	5.4%	4.9%	6.3%	1.3%	2.4%	1.4%	3.0%	3.2%	3.2%
U.S. (Billions)	7,208	7,435	7,828	7,927	8,039	8,180	8,451	8,709	8,989
% Ch	5.9%	3.2%	5.3%	1.3%	1.4%	1.7%	3.3%	3.1%	3.2%
HOUSING STARTS									
Idaho	10,113	10,345	11,532	12,253	13,222	14,342	12,288	11,734	11,446
% Ch	14.1%	2.3%	11.5%	6.2%	7.9%	8.5%	-14.3%	-4.5%	-2.5%
U.S. (Millions)	1.621	1.647	1.573	1.601	1.711	1.662	1.563	1.541	1.590
% Ch	9.9%	1.6%	-4.5%	1.8%	6.9%	-2.9%	-5.9%	-1.4%	3.2%
TOTAL NONFARM EMPLOYMENT									
Idaho	520,469	538,089	558,566	568,014	568,017	570,212	577,053	587,046	596,681
% Ch	2.6%	3.4%	3.8%	1.7%	0.0%	0.4%	1.2%	1.7%	1.6%
U.S. (Thousands)	125,851	128,904	131,719	131,925	130,776	130,615	132,836	135,431	137,750
% Ch	2.6%	2.4%	2.2%	0.2%	-0.9%	-0.1%	1.7%	2.0%	1.7%
SELECTED INTEREST RATES									
Federal Funds	5.4%	5.0%	6.2%	3.9%	1.7%	1.3%	1.7%	2.7%	3.0%
Bank Prime	8.4%	8.0%	9.2%	6.9%	4.7%	4.3%	4.7%	5.7%	6.0%
Existing Home Mortgage	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	6.1%	7.0%	7.2%
INFLATION									
GDP Price Deflator	1.2%	1.4%	2.1%	2.4%	1.1%	1.6%	1.9%	2.3%	2.3%
Personal Cons Deflator	1.1%	1.6%	2.5%	2.0%	1.4%	1.9%	1.7%	2.2%	2.4%
Consumer Price Index	1.5%	2.2%	3.4%	2.8%	1.6%	2.2%	1.5%	2.2%	2.4%

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	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	10,704	10,771	10,913	11,083	11,286	11,457	11,648	11,816	11,973	12,120	12,277	12,457
% Ch	4.4%	2.5%	5.4%	6.4%	7.5%	6.2%	6.9%	5.9%	5.4%	5.0%	5.3%	6.0%
1996 Chain-Weighted	9,563	9,599	9,690	9,797	9,922	10,022	10,133	10,224	10,296	10,364	10,438	10,534
% Ch	1.9%	1.5%	3.8%	4.5%	5.2%	4.1%	4.5%	3.6%	2.9%	2.7%	2.9%	3.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	34,453	34,681	34,832	35,138	35,685	36,277	36,958	37,414	37,737	38,264	38,763	39,178
% Ch	4.0%	2.7%	1.8%	3.6%	6.4%	6.8%	7.7%	5.0%	3.5%	5.7%	5.3%	4.3%
Idaho Nonfarm (Millions)	33,230	33,493	33,829	34,186	34,617	35,031	35,513	36,030	36,495	36,986	37,463	37,971
% Ch	2.0%	3.2%	4.1%	4.3%	5.1%	4.9%	5.6%	6.0%	5.3%	5.5%	5.3%	5.5%
U.S. (Billions)	9,128	9,199	9,291	9,402	9,536	9,657	9,792	9,923	10,049	10,179	10,307	10,451
% Ch	3.9%	3.2%	4.1%	4.9%	5.8%	5.2%	5.7%	5.4%	5.2%	5.3%	5.1%	5.7%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	30,594	30,708	30,752	30,893	31,242	31,626	32,033	32,236	32,344	32,618	32,855	33,022
% Ch	1.3%	1.5%	0.6%	1.8%	4.6%	5.0%	5.2%	2.6%	1.4%	3.4%	2.9%	2.0%
Idaho Nonfarm (Millions)	29,508	29,657	29,866	30,056	30,307	30,540	30,780	31,042	31,279	31,529	31,753	32,005
% Ch	-0.7%	2.0%	2.8%	2.6%	3.4%	3.1%	3.2%	3.5%	3.1%	3.2%	2.9%	3.2%
U.S. (Billions)	8,106	8,145	8,203	8,266	8,349	8,419	8,487	8,549	8,613	8,677	8,736	8,809
% Ch	1.2%	2.0%	2.8%	3.1%	4.1%	3.4%	3.3%	2.9%	3.0%	3.0%	2.7%	3.4%
HOUSING STARTS												
Idaho	15,758	14,767	13,857	12,985	12,495	12,371	12,217	12,069	11,896	11,770	11,665	11,606
% Ch	-14.1%	-22.9%	-22.5%	-22.9%	-14.3%	-3.9%	-4.9%	-4.8%	-5.6%	-4.2%	-3.5%	-2.0%
U.S. (Millions)	1.739	1.668	1.647	1.594	1.571	1.567	1.564	1.552	1.543	1.536	1.535	1.550
% Ch	-0.9%	-15.2%	-5.0%	-12.2%	-5.8%	-0.8%	-0.9%	-3.0%	-2.2%	-1.9%	-0.2%	4.0%
TOTAL NONFARM EMPLOYMENT												
Idaho	569,165	569,492	570,520	571,672	573,426	575,738	578,226	580,822	583,378	586,021	588,379	590,406
% Ch	-2.2%	0.2%	0.7%	0.8%	1.2%	1.6%	1.7%	1.8%	1.8%	1.8%	1.6%	1.4%
U.S. (Thousands)	130,596	130,363	130,509	130,991	131,675	132,461	133,279	133,930	134,542	135,120	135,707	136,356
% Ch	-0.6%	-0.7%	0.4%	1.5%	2.1%	2.4%	2.5%	2.0%	1.8%	1.7%	1.7%	1.9%
SELECTED INTEREST RATES												
Federal Funds	1.3%	1.3%	1.3%	1.3%	1.5%	1.5%	1.8%	2.0%	2.2%	2.6%	2.8%	3.0%
Bank Prime	4.3%	4.3%	4.3%	4.3%	4.5%	4.5%	4.8%	5.0%	5.2%	5.6%	5.8%	6.0%
Existing Home Mortgage	5.9%	5.6%	5.7%	5.8%	5.7%	5.9%	6.2%	6.5%	6.7%	7.0%	7.1%	7.2%
INFLATION												
GDP Price Deflator	2.5%	1.0%	1.5%	1.8%	2.2%	2.0%	2.3%	2.2%	2.5%	2.3%	2.3%	2.2%
Personal Cons Deflator	2.7%	1.1%	1.2%	1.7%	1.7%	1.7%	2.4%	2.4%	2.1%	2.2%	2.3%	2.3%
Consumer Price Index	3.9%	1.0%	1.1%	1.6%	1.4%	1.4%	2.2%	2.4%	2.0%	2.2%	2.4%	2.3%